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RUEHCN/AMCONSUL CHENGDU 1559  
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RUEHCI/AMCONSUL KOLKATA 0410  
RUEAIIA/CIA WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEKJCS/DIA WASHDC  
RUEHGV/USMISSION GENEVA 3999  
RHEHNSC/NSC WASHDC  
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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000693

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STATE FOR EAP/MLS, INR/EAP, EEB/TFS, EEB/TRA  
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TAGS: ECON PREL PGOV EAIR FWWT BM

SUBJECT: BURMA: BRITISH INSURANCE COMPANIES TO DIVEST FROM  
AVIATION AND MARITIME SECTORS

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Classified By: CDA Tom Vajda for Reasons 1.4 (b and d)

¶1. (C) Summary. Aviation industry officials confirm that at least two Lloyds of London insurance underwriters, RFIB and Munich Re, will divest from Burma by not automatically renewing their reinsurance contracts. The divestment -- at least partially the result of pressure from Burma Campaign UK, according to the British Embassy -- will affect the aviation and maritime industries. Air Bagan, Burma's largest airline, which is owned by regime crony Tay Za, stands to lose \$750 million in reinsurance by the end of August. Other companies, including Air Mandalay and Yangon Airways, could lose their insurance on September 30. In addition to losing their insurance, Burmese airlines may also lose planes leased from French-owned ATR, which requires European or American reinsurance. Aviation officials predict Burmese airlines will turn to Russia or China for reinsurance. End Summary.

British Insurance Companies Under Pressure

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¶2. (C) GOB regulations require companies in Burma's aviation and maritime sectors to purchase insurance from state-owned Myanmar Insurance Company. Nevertheless, many companies, afraid that Myanmar Insurance lacks the liquidity to cover claims, purchase reinsurance contracts from international underwriters. Two Lloyds of London syndicate companies -- RFIB Group Limited and Munich Re -- provide the majority of reinsurance for Burma's five airlines and Myanmar Five Star Shipping Lines. Two additional companies -- Chubb and XL Capital -- had previously explored entering Burma's insurance market, but currently have no operations in country.

¶3. (C) According to British Embassy Sanctions Officer Alex

Page, the Burma Campaign UK has placed increasing pressure on European insurance companies to pull out of the Burmese market. In a recently released report, the Burma Campaign UK alleged that Lloyd's operators were insuring state-owned companies, helping to finance the regime. While EU sanctions do not prohibit the provision of insurance to Burmese companies, Lloyds of London syndicate companies have begun to reevaluate their operations in Burma, Page confirmed. Recent news reports claimed that Chubb and XL Capital were pulling out of the market; Page clarified that neither company was active in Burma, although other Lloyds' companies were.

#### Another Shot at the Aviation Industry

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¶4. (C) Aviation insider Brett Melzer (the Australian owner of Balloons over Bagan, a private hot air balloon company) informed us that RFIB and Munich Re, the two primary reinsurers of Burmese aviation and maritime companies, would be divesting from the Burmese market beginning at the end of August. RFIB and Munich Re, companies within the Lloyds syndicate, solely reinsurance Balloons over Bagan (worth USD 12 million) and partner with other Lloyds companies to cover Air Bagan (worth USD 750 million), Yangon Airways (worth USD 150 million), Air Mandalay (worth USD 150 million), and Myanmar Five Star Lines (worth 250 million). According to Melzer, RFIB and Munich Re will not renew their current contracts with the above-mentioned companies. Air Bagan's contract expires on August 31; the remaining contracts expire on September 30. Melzer noted that if RFIB and Munich Re pulled out of Burma, their partners would likely follow suit.

¶5. (C) Melzer stated that the Burmese Government would not

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allow Air Bagan to stop its service and would likely push the company to find additional reinsurance, possibly from China or Russia. However, the loss of British reinsurance would affect Burmese airlines' ability to fly, according to Melzer.

Burma's four domestic airlines lease ATR-42s and ATR-72s from France; ATR requires that European or American companies underwrite the insurance on all leased planes. Without insurance from the Lloyds syndicate, Burmese airlines will likely lose their leases, the RFIB representative told Melzer. Of the four domestic airlines, only Air Bagan owns planes - two ATR-42s and one Fokker 100. However, Air Bagan could not service its 17 domestic destinations and one international destination with only three planes, and would likely have to cut services further, Melzer added.

¶6. (C) Because EU sanctions do not prohibit European underwriters from working in Burma, airlines may petition Lloyds companies for reinsurance. Melzer explained that he was hopeful RFIB would make an exception and insure Balloons Over Bagan, since the company was small, had an excellent safety record, and did not share its profits with the GOB.

#### Comment

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¶7. (C) Air Bagan officials mentioned to us last week that they were having insurance difficulties, but indicated that they would quickly find a solution. Tay Za's connections may allow him to secure reinsurance from Russian or Chinese firms, which may be willing to overlook Air Bagan's lax safety and maintenance record. However, extending ATR leases without European insurance will be much tougher, and perhaps impossible. With few or no planes, Air Bagan and the other Burmese airlines -- already reeling from a major drop in tourism -- may find themselves forced to severely curtail airline service.

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